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STATE OF MONTANA

BOULDER RIVER SCHOOL AND HOSPITAL

REPORT ON AUDIT

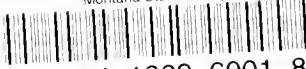
Conducted under Contract by
Peat, Marwick, Mitchell & Co.
Certified Public Accountants

Fiscal Year Ended June 30, 1976



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STATE OF MONTANA
BOULDER RIVER SCHOOL AND HOSPITAL
REPORT ON AUDIT
Conducted under Contract by
Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Fiscal Year Ended June 30, 1976

OVERVIEW

AUDIT OF BOULDER RIVER SCHOOL AND HOSPITAL

JUNE 30, 1976

Introduction

The audit of the various funds of Boulder River School and Hospital (BRS&H) for the year ended June 30, 1976 was a financial compliance audit performed by Peat, Marwick, Mitchell & Co. under contract with the Office of the Legislative Auditor. The purpose of the audit was to determine that the financial statements were presented in accordance with generally accepted accounting principles and to determine that the agency had complied with applicable state laws and regulations.

The audit resulted in an adverse opinion on the financial position of the Uncleared Care and Maintenance Fund (AA) and an adverse opinion on the results of operations of the General Fund. However, an unqualified opinion was given on the financial statements of each of the other funds and on the financial position of the general fund. The adverse opinion on the financial position of the Uncleared Care and Maintenance Fund (AA) was issued because proper recognition was not given to approximately \$14,000 of unrecorded liabilities and related receivables. The General Fund financial statements did not present fairly the results of operations in accordance with generally accepted accounting principles because approximately \$1,919,000 of revenues generated by BRS&H operations were not recorded on its books and records. This is discussed more fully in Note 3 to the Financial Statements and on page 5 of the recommendations.

Synopsis of Major Findings

The report includes a section entitled "Auditors Observations and Comments." Most of the comments relate to recommendations for strengthening accounting procedures and internal control. There are eight recommendations.

The Department of Institutions replied to seven of the recommendations agreeing with five, agreeing in part with one and disagreeing with one. The Department of Administration responded to the other recommendations and agreed in principle. The more significant recommendations are:

ESEA Title I Grant - BRS&H should reconcile the differences between recorded transactions and the transactions reported to the Office of Superintendent of Public Instruction.

Reimbursements - Reimbursement revenue received by the state which has been generated by the operations of Boulder River School and Hospital should be reflected on the books and records of the Institution. Also BRS&H should establish procedures to insure that all reimbursable services are billed. The Department of Institutions does not concur with the first suggestion.

Conclusion

Other recommendations included in the report related to the following:

1. Submission of all repair contracts in excess of \$10,000 to the Board of Examiners for approval.
2. Suggestions for strengthening internal control in the payroll area.
3. Recording patient accounts on SBAS using an agency-type entity (Department of Institutions disagrees)
4. Suggestions for monitoring patients personal property.
5. Strengthening procedures for recording receipt and issuance of supplies on the computerized supplies inventory system.
6. Strengthening procedures for recording fixed asset transactions on the computerized fixed asset system on a timely basis.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
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STAFF LEGAL COUNSEL
JOHN W. NORTHEY

January 10, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Boulder River School and Hospital for the year ended June 30, 1976.

The audit was conducted by Peat, Marwick, Mitchell and Company, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Department of Institutions and the Department of Administration are included in the back of this report.

	<u>Page</u>
Reconcile the differences between recorded transactions and transactions reported to OSPI.	5

Agency Reply: Concur. See page 25.

Reimbursement revenue received by the state be recorded on the books of BRS&H, and the cost of collections for BRS&H made by the Reimbursement Bureau be charged to BRS&H.	5
---	---

Agency Reply: Do not concur. The Department of
Institutions believes that such a procedure would
decrease the efficiency of the reimbursement
collection process and require a costly and complex
accounting system. See page 25.

Establish procedures which would insure all reimbursable services are billed.	6
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Agency Reply: Concur. See page 26.

The Department of Administration submit all repair contracts exceeding \$10,000 to the Board of Examiners for approval.	6
---	---

Department of Administration Reply: Concur. See page 35.

The payroll approval duties be assigned to the accounting department to afford a check against fictitious employees since the personnel department prepares the paper work for all hirings and terminations.	7
---	---

Agency Reply: Concur. See page 26.

The personnel department review all current employee files to assure all files are complete, including current W-4's and authorizations for other payroll deductions.	7
--	---

Agency Reply: Concur. See page 26.

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Payroll procedures be changed so no employee can be paid for a day's work unless he has signed the daily time-keeping log.	7
<u>Agency Reply:</u> Concur. See page 26.	
Patient Accounts be set up on SBAS using an agency type entity.	7
<u>Agency Reply:</u> Do not concur. The agency has received permission from the Department of Administration to maintain the resident accounts outside the treasury system. See page 27.	
Each patients' personal belongings be checked and agreed to the list of his belongings to assure all patient property is accounted for and in the proper location.	8
<u>Agency Reply:</u> Concur. See page 27.	
Procedures be initiated which will assure all supplies received and issued are input to the computerized supplies inventory system.	8
<u>Agency Reply:</u> Concur. See page 27.	
Procedures be initiated which will assure all fixed asset transactions are input to the computerized fixed asset system on a timely basis.	8
<u>Agency Reply:</u> Concur. See page 27.	

The Legislative Audit Committee
of the Montana State Legislature:

In our opinion, because of the material effect of the matters discussed in the preceding paragraph, the combined balance sheets do not present fairly the financial position of the Uncleared Care and Maintenance Fund (AA) at June 30, 1976, the combined statements of revenue do not present fairly the revenue of the General Fund for the year ended June 30, 1976 and the combined statements of changes in fund balance do not present fairly the changes in fund balance of the General Fund for the year ended June 30, 1976.

In our opinion, the financial statements as listed in the accompanying table of contents other than those mentioned in the preceding paragraph present fairly the financial position of the various funds of Boulder River School and Hospital at June 30, 1976 and the results of operations of such funds for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Supplementary data included in the Schedule have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

Pearl, Marwick, Mitchell & Co.

October 15, 1976

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

AUDITORS' OBSERVATIONS AND COMMENTS ON
ACCOUNTING PROCEDURES AND INTERNAL CONTROL

INTRODUCTION

The primary purpose of our examination of the financial statements of the various funds of the Boulder River School and Hospital (BRS&H) for the fiscal year ended June 30, 1976 was to enable us to form an opinion as to the financial position of the various funds of the Boulder River School and Hospital at June 30, 1976 and the results of operations of such funds for the fiscal year then ended, and to test for compliance with state and federal laws applicable to the agency.

We reviewed and tested BRS&H's system of internal accounting control to the extent considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of the evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
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potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. Our study and evaluation of BRS&H's internal control for the year ended June 30, 1976 would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed the following conditions that we believe merit attention. It should be noted that this list, by its nature, is critical in that it contains only our comments and recommendations on deficiencies observed in the course of our examination. It does not include our observations on the many strong features of BRS&H's system of internal control.

ESEA TITLE I GRANT

Boulder River School and Hospital is a secondary recipient of funds from a Federal grant under Title I of the Elementary and Secondary Education Act (ESEA Title I). Funds received are used to initiate, expand, and improve special educational and related services to handicapped children. The fund balance of the grant as reported to the Office of the Superintendent of Public Instruction of the State of Montana (OSPI) does not agree with the fund balance as recorded on the Statewide Budgeting and Accounting System (SBAS). The difference is approximately \$6,000, and appears to result from expenditures recorded on

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
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SBAS which are not included in the quarterly reports to OSPI. Errors of this type appear to have been made over a number of years.

RECOMMENDATION

We recommend BRS&H reconcile the differences between recorded transactions and transactions reported to OSPI. All revenues and expenditures recorded on SBAS should be reconciled to the reports submitted to OSPI for all future reports.

REIMBURSEMENTS

The state receives reimbursements for a part of the costs of caring for and treating residents of BRS&H. The reimbursements are received from Medicaid, Medicare, private insurance, patients' money and patients' parents or guardians. Billings for Medicaid, Medicare and private insurance are prepared at BRS&H. Billings to patients and patients' parents or guardians are prepared at the Department of Institution's Reimbursement Bureau. All revenue from these billings is recorded at the Reimbursement Bureau, not at BRS&H. In the year ended June 30, 1976, such collections aggregated approximately \$1,920,000. Billings for Medicaid, Medicare and private insurance are prepared at BRS&H based on information received from the hospital and other treatment areas. Our test of procedures revealed instances where reimbursable services were rendered to patients but were not reported to the BRS&H billing department. At present there is no assurance that all reimbursable services are being claimed for reimbursement.

RECOMMENDATIONS

1. We recommend reimbursement revenue received by the state be recorded on the books of BRS&H, and the cost of collections for BRS&H made by the Reimbursement Bureau be charged to BRS&H. This would require an additional appropriation to cover the charges made to BRS&H. The result of recording such revenue and collection cost would be to more accurately reflect the cost of operating BRS&H.

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

2. We recommend BRS&H establish procedures which would insure all reimbursable services are billed. It is our understanding such procedures are in the process of being designed at BRS&H at the present time.

CAPITAL PROJECTS

A state purchase order was issued for repairs to the water tank at BRS&H. The cost of the repairs was approximately \$20,000 and was authorized by a capital project appropriation. 82-3314 RCM 1947 amended defines "Construction" as including construction, repair, alteration, and equipment and furnishing during construction, repair, or alteration. The same code in part defines "Building" as a building, facility, or structure at a state institution. 82-3317 RCM 1947 amended states in part "for the construction of a building costing more than ten thousand dollars (\$10,000) the department of administration shall: (c) Under the supervision and with the approval of the board of examiners, solicit, accept and reject bids and award all contracts to the lowest qualified bidder." Because the contract was awarded via state purchase order, approval of the board of examiners was not obtained. We believe the repair contract should have been approved by the board of examiners.

RECOMMENDATION

We recommend the department of administration submit all repair contracts exceeding \$10,000 to the board of examiners for approval.

PAYROLL

The following weaknesses were noted in payroll procedures:

1. The personnel director approves all payrolls.
2. In three cases, current W-4's and other authorizations for payroll deductions could not be located.
3. In two cases, employees were paid for days when they had not signed-in on the daily timekeeping logs.

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

The above weaknesses undermine controls which are designed to insure no fictitious employees are on the payroll, no employee receives pay for time not worked, and all payroll deductions are correct and authorized by the employee.

RECOMMENDATION

1. We recommend the payroll approval duties be assigned to the accounting department to afford a check against fictitious employees since the personnel department prepares the paper work for all hirings and terminations.
2. We recommend the personnel department review all current employee files to assure all files are complete, including current W-4's and authorizations for other payroll deductions.
3. We recommend payroll procedures be changed so no employee can be paid for a day's work unless he has signed the daily time-keeping log.

PATIENTS' ACCOUNTS

BRS&H maintains a checking account and numerous savings accounts in which money belonging to patients is deposited. At June 30, 1976, the balance in the checking account was approximately \$45,000 and the balances in the savings accounts aggregated approximately \$94,000. These accounts are not recorded on the statewide budgeting and accounting system (SBAS).

RECOMMENDATION

We recommend the patient accounts be set up on SBAS using an agency-type entity.

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

PATIENT'S PERSONAL PROPERTY

BRS&H maintains a list of all personal items belonging to each patient at the institution. When a patient is moved from one cottage to another, his personal belongings are supposed to be moved with him. We found one case where an item of furniture belonging to a patient was moved to the wrong cottage when the patient was moved.

RECOMMENDATION

We recommend each patients' personal belongings be checked and agreed to the list of his belongings to assure all patient property is accounted for and in the proper location.

SUPPLIES INVENTORY

Our review of supplies inventory controls and procedures revealed errors exist in the newly computerized inventory system. We noted the physical count did not agree to the computer print-out for some items.

RECOMMENDATION

We recommend procedures be initiated which will assure all supplies received and issued are input to the computerized supplies inventory system.

FIXED ASSETS

Our review of fixed asset controls and procedures revealed errors exist in the newly computerized fixed asset accounting system. In some cases, fixed asset items purchased in the year ended June 30, 1976 could not be found on the computer listing.

RECOMMENDATION

We recommend procedures be initiated which will assure all fixed asset transactions are input to the computerized fixed asset system on a timely basis.

FINANCIAL STATEMENTS

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Balance Sheets

June 30, 1976

<u>Assets and Other Debits</u>	<u>General Fund</u>	<u>Education Expansion (FPPRA)</u>	<u>Federal and Private Revenue Account (FPPRA)</u>	<u>Federal Revenue Sharing (FPPRA)</u>
Cash in State Treasury	\$ -	6,358	-	7,057
Cash in banks	2,500	-	-	-
Cash on hand	-	-	-	-
Expense advances to employees	1,350	-	-	-
Other advances to employees	959	-	-	-
Transfers to construction advance account	100	-	-	-
Encumbered appropriation	<u>484,143</u>	<u>6,358</u>	<u>7,057</u>	<u>-</u>
	<u>\$ 489,052</u>	<u><u>6,358</u></u>	<u><u>7,057</u></u>	<u><u>-</u></u>
<u>Liabilities and Fund Balance</u>				
Accrued support expenditures	\$ 107,110	-	-	-
Encumberances outstanding	381,921	-	-	-
Other liabilities	21	-	-	315
Uncleared collections	-	-	-	-
Property held in trust	-	-	-	-
Fund balance	<u>-</u>	<u>6,358</u>	<u>6,742</u>	<u>-</u>
	<u>\$ 489,052</u>	<u><u>6,358</u></u>	<u><u>7,057</u></u>	<u><u>-</u></u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Balance Sheets, Continued

June 30, 1976

<u>Assets and Other Debits</u>	<u>Wind Damage Insurance Clearance Account (BPICA)</u>	<u>Canteen Revolving Account (RA)</u>	<u>Uncleared Care and Maintenance Funds (AA)</u>	<u>Donations (AA)</u>
Cash in State Treasury	\$ -	11,115	66,598	24,810
Cash in banks	-	-	-	-
Cash on hand	-	50	-	-
Expense advances to employees	-	-	-	-
Other advances to employees	-	-	-	-
Transfers to construction advance account	-	-	-	-
Encumbered appropriation	\$ -	<u>11,165</u>	<u>66,598</u>	<u>24,810</u>
<u>Liabilities and Fund Balance</u>				
Accrued support expenditures	\$ -	-	1,600	-
Encumbrances outstanding	-	-	-	-
Other liabilities	-	-	-	-
Uncleared collections	-	-	66,598	-
Property held in trust	-	-	-	24,810
Fund balance	\$ -	<u>9,565</u>	<u>11,165</u>	<u>-</u>
			<u>66,598</u>	<u>24,810</u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Statements of Revenue - Budget and Actual

Year ended June 30, 1976

	<u>General Fund</u>	<u>Education Expansion (FPPRA)</u>	<u>Federal and Private Revenue Account (FPPRA)</u>
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Sale of documents, merchandise and property	\$ -	-	600
Rentals and leases	3,000	851	-
Grants	-	-	215,000
Donations	-	-	-
Income transfers	-	-	-
Miscellaneous	500	<u>2,795</u>	<u>161,585</u>
	<u><u>\$ 3,500</u></u>	<u><u>3,646</u></u>	<u><u>215,600</u></u>
			<u><u>161,585</u></u>
			<u><u>2,000</u></u>
			<u><u>2,000</u></u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Statements of Revenue - Budget and Actual, Continued

Year ended June 30, 1976

	Federal Revenue Sharing (FPPA)		Wind Damage Insurance Clearance Account (BPICA)		Canteen Revolving Account (RA)	
	Budget	Actual	Budget	Actual	Budget	Actual
Sale of documents, merchandise and property	\$ -	-	-	-	14,000	27,605
Rentals and leases	-	-	-	-	-	-
Grants	-	-	-	-	-	-
Donations	-	-	-	-	-	-
Income transfers	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
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	\$ -	=	-	=	14,000	<u>27,605</u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Statements of Expenditures and Encumbrances - Budget and Actual

Year ended June 30, 1976

	General Fund		Education Expansion (FPPA)		Federal and Private Revenue Account (FPRA)	
	Budget	Actual	Budget	Actual	Budget	Actual
Administrative support program	\$ 624,724	609,857	-	-	-	2,749
Resident support program	1,568,937	1,563,622	-	-	-	-
Community services program	443,384	365,193	256,038	157,691	-	(3,120)
Treatment program	1,679,576	1,361,232	-	-	-	-
Habilitation program	3,964,171	3,727,082	-	-	-	-
Food service program	999,031	995,485	-	-	-	-
Resident operations program	107,555	86,196	-	-	-	-
Canteen program	12,879	12,879	-	-	-	-
Mental retardation program	-	66,037	-	-	-	-
	<u>\$ 9,400,257</u>	<u>8,787,583</u>	<u>256,038</u>	<u>157,691</u>	<u>-</u>	<u>(371)</u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Statements of Expenditures and Encumbrances - Budget and Actual, Continued

Year ended June 30, 1976

	Federal Revenue Sharing (FPRS)		Wind Damage Insurance Clearance Account (BPICA)		Canteen Revolving Account (RA)	
	Budget	Actual	Budget	Actual	Budget	Actual
Administrative support program	\$ -	-	-	-	-	-
Resident support program	-	176	-	-	-	-
Community service program	-	-	-	-	-	-
Treatment program	-	-	-	-	-	-
Habilitation program	-	-	-	-	-	-
Food service program	-	-	-	-	-	-
Resident operations program	-	-	-	-	-	-
Canteen program	-	-	-	-	32,000	30,994
Mental retardation program	-	-	-	-	-	-
	<u>\$ -</u>	<u>176</u>	<u>-</u>	<u>-</u>	<u>32,000</u>	<u>30,994</u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Statements of Changes in Fund Balance

Year ended June 30, 1976

	<u>General Fund</u>	<u>Education Expansion (FPPA)</u>	<u>Federal and Private Revenue Account (FPPA)</u>
Fund balance at July 1, 1975	\$ -	2,464	4,371
Receipts and additions:			
Appropriation support	9,400,257	-	-
Prior year appropriation authority	-	-	-
Revenues	3,646	161,585	2,000
Interfund transfers	5,652	<u>161,585</u>	<u>2,000</u>
	<u>9,409,555</u>		
Expenditures, encumbrances and reductions:			
Expenditures and encumbrances	8,787,583	157,691	(371)
Reversions to State	621,972	-	-
Interfund transfers	-	<u>157,691</u>	<u>(371)</u>
	<u>9,409,555</u>		
Fund balance at June 30, 1976	\$ -	<u>6,358</u>	<u>6,742</u>

See accompanying notes to financial statements.

BOUTTER RIVER SCHOOL AND HOSPITAL
 (An Institution of the State of Montana)

Combined Statements of Changes in Fund Balance, Continued

Year ended June 30, 1976

	<u>Federal Revenue Sharing (FPRA)</u>	<u>Wind Damage Insurance Clearance Account (BPICA)</u>	<u>Canteen Revolving Account (RA)</u>
Fund balance at July 1, 1975	\$ -	5,652	12,954
Receipts and additions:			
Appropriation support	-	-	-
Prior year appropriation authority	176	-	-
Revenues	-	-	27,605
Interfund transfers	<u>176</u>	<u>-</u>	<u>27,605</u>
Expenditures, encumbrances and reductions:			
Expenditures and encumbrances	176	-	30,994
Reversions to State	-	-	-
Interfund transfers	<u>176</u>	<u>5,652</u>	<u>30,994</u>
Fund balance at June 30, 1976	\$ <u>-</u>	<u>5,652</u>	<u>9,565</u>

See accompanying notes to financial statements.

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Notes to Financial Statements

June 30, 1976

(1) Summary of Significant Accounting Policies

The preceding financial statements reflect the financial position and results of operations of Boulder River School and Hospital except for a statement of general fixed assets.

The different funds included in the financial statements and their purposes are:

General Fund - to account for revenues and expenditures not included in the other funds.

Education Expansion Federal and Private Revenue Account (Education Expansion FPRA) - to account for revenues and expenditures related to the Federal ESEA Title I grant.

Federal and Private Revenue Account FPRA - to account for Federal and private grant revenues and expenditures other than the ESEA Title I grant.

Federal Revenue Sharing Federal and Private Revenue Account (Federal Revenue Sharing FPRA) - to account for Federal Revenue Sharing revenues and expenditures.

Wind Damage Insurance Clearance Account Bond Proceeds and Insurance Clearance Account (Wind Damage Insurance Clearance Account BPICA) - to account for insurance payments which resulted from wind damage in a prior fiscal year and to account for the costs of repairs to damaged buildings.

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Notes to Financial Statements

Canteen Revolving Account (Canteen Revolving Account RA) - to account for revenue and expenditures of canteen operations.

Uncleared Care and Maintenance Funds Agency Account (Uncleared Care and Maintenance Funds AA) - to account for care and maintenance charges to patients. Funds in this entity are to be transferred to the Department of Institution's Reimbursement Bureau.

Donations Agency Account (Donations AA) - to account for donated funds.

The accounting policies of Boulder River School and Hospital conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies:

Fund Accounting

The accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

Basis of Accounting

Boulder River School and Hospital follows the modified accrual basis of accounting, under which expenditures are recorded when the liability is incurred and revenues are recorded when received in cash unless susceptible to accrual (i.e. measurable and available to finance the agency's operations) or of a material amount and not received at the normal-time of receipt.

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Notes to Financial Statements

Encumbrances

Boulder River School and Hospital employs encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation.

Appropriations

Appropriations in the general fund are made by the legislature for operating purposes of Boulder River School and Hospital. Expenditures against these appropriations are funded by the corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year end.

Inventories

Inventories are expensed at the time of purchase.

General Fixed Assets

The agency has not maintained an adequate record of its general fixed assets. Assets purchased are recorded as expenditures in the various funds in the year of purchase or encumbrance.

Vacation Pay and Sick Pay

The value of unused vacation and unused sick leave accumulated by employees is not recorded as a liability. Each permanent employee can accumulate and carryover a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. The amount of accumulated leave at June 30, 1976 was not readily determinable.

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Notes to Financial Statements

(2) Retirement Plan

The State of Montana has two contributory retirement plans covering substantially all employees of Boulder River School and Hospital. Instructional employees are eligible for the Teachers Retirement System and other employees are eligible for the Public Employees Retirement System. Employer contributions for the year ended June 30, 1976 for all funds were \$297,631. The unfunded past service costs and the actuarially computed value of vested benefits are not readily available for members of the plans employed by Boulder River School and Hospital.

(3) Departures from Generally Accepted Accounting Principles

The following are departures from generally accepted accounting principles which have a material effect on the financial statements at June 30, 1976:

- a. General Fund - Boulder River School and Hospital received reimbursements from several sources for services rendered to residents and patients of the institution. Such revenues are not recorded at the institution, instead, they are recorded as revenue at the Department of Institution's Reimbursement Bureau. Unrecorded revenue at Boulder River School and Hospital for the year ended June 30, 1976 was approximately as follows:

(Continued)

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Notes to Financial Statements

<u>Received from</u>	<u>Amount</u>
Medicaid	\$ 1,737,900
Medicare	6,400
Private insurance	35,500
Private billings	<u>139,500</u>
	\$ <u>1,919,300</u>

- b. Uncleared Care and Maintenance Fund (AA) - per diem billings due to the Uncleared Care and Maintenance Fund (AA) from patients for the months of May and June, 1976 are not recorded at June 30, 1976. Such billings aggregate approximately \$14,000.

ScheduleBOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Schedule of Expenditures by Program

Year ended June 30, 1976

	<u>Administrative Support</u>	<u>Resident Support</u>	<u>Community Services</u>	<u>Treatment</u>	<u>Habilitation</u>
Personal services:					
Salaries, wages and employee benefits	\$ <u>448,207</u>	<u>891,739</u>	<u>461,224</u>	<u>1,177,264</u>	<u>3,320,455</u>
Operating expenses:					
Contracted services	33,140	32,104	13,695	47,729	133,651
Supplies and materials	15,517	149,868	20,242	90,299	143,482
Communications	56,544	4	288	1	-
Travel	8,533	1,755	12,129	5,826	10,734
Rent	23,755	3,069	(3,444)	2,743	114
Utilities	-	171,887	-	-	-
Repairs and maintenance	634	50,604	390	2,305	1,499
Other	6,582	629	1,224	7,630	28,488
Goods purchased for resale	-	-	-	-	-
	<u>144,705</u>	<u>409,920</u>	<u>44,524</u>	<u>156,533</u>	<u>317,968</u>
Equipment	<u>19,694</u>	<u>261,963</u>	<u>14,192</u>	<u>27,435</u>	<u>88,659</u>
Interagency transfers	-	-	-	-	-
	<u>\$ 612,606</u>	<u>1,563,622</u>	<u>519,940</u>	<u>1,361,232</u>	<u>3,727,082</u>

Schedule, Continued

BOULDER RIVER SCHOOL AND HOSPITAL
(An Institution of the State of Montana)

Schedule of Expenditures by Program, Continued

	<u>Food Service</u>	<u>Resident Operations</u>	<u>Canteen</u>	<u>Mental Retardation</u>
Personal services:				
Salaries, wages and employee benefits	\$ <u>627,899</u>	<u>60,318</u>	<u>21,047</u>	<u>-</u>
Operating expenses:				
Contracted services	324	20,768	-	-
Supplies and materials	339,247	181	24	-
Communications	-	15	-	-
Travel	57	398	-	-
Rent	-	-	-	-
Utilities	-	-	-	-
Repairs and maintenance	392	-	49	-
Other	55	95	-	-
Goods purchased for resale	-	-	<u>22,744</u>	<u>-</u>
	<u>340,075</u>	<u>21,457</u>	<u>22,817</u>	<u>-</u>
Equipment	<u>27,511</u>	<u>4,421</u>	<u>9</u>	<u>-</u>
Interagency transfers	-	-	-	<u>66,037</u>
	\$ <u>995,485</u>	<u>86,196</u>	<u>43,873</u>	<u>66,037</u>

AGENCY REPLIES

State of Montana
Department of Institutions



GOVERNOR
THOMAS L. JUDGE

DIRECTOR
ROBERT H. MATTSON



BOARD MEMBERS
ZELLA A. JACOBSON, GREAT FALLS
ELDON E. KUHNS, BILLINGS
WILLIS M. McKEON, MALTA
ROBERT J. PALLO, KALISPELL
JOHN W. STRIZICH, M.D., HELENA

Helena, 59601

December 28, 1976

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Gentlemen:

We have reviewed the audit report prepared by Peat, Marwick, Mitchell, and Company, Certified Public Accountants on Boulder River School and Hospital. Our review was made in cooperation with William Conyard, Superintendent of Boulder River School and Hospital.

The report provides a very welcome service and is sincerely appreciated.

Our response to recommendations is attached.

Sincerely,

Curt Chisholm
Acting Director

CC:pk

Enclosure

RESPONSE TO BOULDER RIVER SCHOOL AND HOSPITAL AUDIT

I. A. Recommendation:

We recommend BRS&H reconcile the differences between recorded transactions and transactions reported to OSPI. All revenues and expenditures recorded to SBAS should be reconciled to the reports submitted to OSPI for all future reports.

B. Agree

C. Corrective Action:

BRS&H will make a concentrated effort to reconcile the differences between the reported expenditures to OSPI and that shown on SBAS. The ESEA Title I grant was established in 1966, which is six years prior to SBAS. If the difference cannot be found between July 1972 and present, authority will be requested to write off the difference between SBAS and the reported expenditures to OSPI.

2. A. Recommendation:

1) We recommend reimbursement revenue received by the state be recorded on the books of BRS&H, and the cost of collections for BRS&H made by the Reimbursement Bureau be charged to BRS&H. This would require an additional appropriation to cover the charges made to BRS&H. The result of recording such revenue and collection cost would be to more accurately reflect the cost of operating BRS&H.

2) We recommend BRS&H establish procedures which would insure all reimbursable services are billed. It is our understanding such procedures are in the process of being designed at BRS&H at this time.

B. We disagree with the recommendation #1 and agree with the recommendation #2.

C. Corrective Action:

By statute (R.C.M. 80-1601-1606) the total reimbursement function (billing and collections) is vested in the Department of Institutions.

1) To record revenue to more than one agency code reduces the efficiency of the reimbursement collection process. Six different revenue estimate codes must be used and the reporting is disseminated in six different agency revenue reports creating an increased workload for the personnel involved and fragmenting the total reimbursement revenue picture. Currently revenue is deposited in the State's General Fund and clearly separated on one report by institution and by source of revenue. (See attached 631 report). Similarly the cost of operating the Reimbursement Program is a cost of the Department of Institutions with a specific appropriation for this function. We agree with the concept of allocating costs back to specific programs but the question would be, how far would this be carried out? Cost of the Department of Administration, Department of Social and Rehabilitation Services and Department of Institutions could be justifiably allocated back to

programs such as Boulder but this would require a very expensive and complex cost accounting system plus a change in Statewide Fiscal Policy by the Department of Administration. Until such changes are made and the system is in existence the Department of Institutions will continue to record the costs to the Reimbursement Program.

2) Currently the ABARS (Automated Billing and Receiving System) system is being programmed to accomplish this task.

3. A. Recommendation:

We recommend the Department of Administration submit all repair contracts exceeding \$10,000 to the Board of Examiners for approval.

B. The Department of Administration will respond to this recommendation.

4. A. Recommendation:

1) We recommend the payroll approval duties be assigned to the Accounting Department to afford a check against fictitious employees since the Personnel Department prepares the paperwork for all hirings and terminations.

2) We recommend the Personnel Department review all current employee files to assure all files are complete, including current W-4's and authorizations for other payroll deductions.

3) We recommend payroll procedures be changed so no employee can be paid for a day's work unless he has signed the daily timekeeping log.

B. 1) Agree

2) Agree

3) Agree

C. Corrective Action:

1) The payroll approval duties have been assigned to Administrative Support Department effective December 15, 1976 (See attachment #1).

2) The BRS&H Personnel Department will check all employee personnel folders for current w-4's and payroll deduction's authorizations prior to July 1, 1977.

3) BRS&H management is instituting a procedure whereby individuals required to sign the daily timekeeping logs will not be paid for days they have not been signed in. Procedure will be enforced by January 1, 1977.

5. A. Recommendation:

We recommend the patient accounts be set up on SBAS using an agency-type entity.

B. Disagree

C. Corrective Action:

Reference R.C.M., Volume 5, Part 1, 1976 Cumulative Pocket Supplement, Page 88, Section 79-603. Permission has been granted by the Department of Administration to maintain the Resident Accounts outside the Treasury System per letter dated March 23, 1971; Doyle B. Saxby, State Controller (See attachment #2).

6. A. Recommendation:

We recommend each patients' personal belongings be checked and agreed to the list of his belongings to assure all patient property is accounted for and in the proper location.

B. Agree

C. Corrective Action:

BRS&H currently has a procedure for tracking of resident belongings (See attachment #3). A more concentrated effort by management will be instituted to assure compliance (See attachment #4).

7. A. Recommendation:

We recommend procedures be initiated which will assure all supplies received and issued are input to the computerized supplies inventory system.

B. Agree

C. Corrective Action:

BRS&H currently has a Supply Inventory Monitoring System which was being developed during the audit period. In January 1977, on-line capabilities will be available and proper inventory controls will be instituted.

8. A. Recommendation:

We recommend procedures be initiated which will assure all fixed asset transactions are input to the computerized fixed asset system on a timely basis.

B. Agree

C. Corrective Action:

BRS&H currently has a Physical Plant Inventory system which was being developed during the audit period. In January 1977, on-line capabilities will be available and proper fixed asset controls and procedures will be initiated.

RECORD FOR AGENCY 6401 DEPARTMENT OF INSTITUTIONS

REVENUE IDENTIFICATION CODE	NAME	ACCOUNTING ENTITY	REVENUE ESTIMATE	Prior Years	Current Month	RECEIPTS	TOTAL TO DATE
00 00 01 01	Boulder River Sch & HOSPITAL	01100	17089	.00	1,742.43	4,3628.97	
00 00 01 02	PRIVATE BILLING	01100	17089	.00	1,824.15	19,996.91	
00 00 01 03	INSURANCE	01100	17089	.00	19,209.76	537,813.00	
00 00 01 04	MEDICAID	01100	17089	.00	8,506.99	38,297.47	
00 00 01 05	MEDICARE	01100	17089	.00	55,281.11	639,736.35	
	LEVEL-1 TOTAL			.00			
06 01 02 01	CENTER FOR THE AGED	01100	17089	.00	12,086.92	54,795.37	
06 01 02 02	PRIVATE BILLING	01100	17089	.00	22,561.58	92,081.80	
06 01 02 03	INSURANCE	01100	17089	.00	34,650.39	146,877.17	
06 01 02 04	MEDICAID	01100	17089	.00			
06 01 02 05	MEDICARE	01100	17089	.00			
	LEVEL-2 TOTAL			.00			
06 03 01 01	EASTMONT FACILITY FOR RETIRED	01100	17089	.00	1,182.78	7,567.78	
06 03 01 02	PRIVATE BILLING	01100	17089	.00	1,182.78	7,567.78	
06 03 01 03	LEVEL-3 TOTAL			.00			
06 03 05 01	GEN STATE HOSPITAL	01100	17089	.00	3,712.99	22,226.05	
06 03 05 02	PRIVATE BILLING	01100	17089	.00	1,268.69	6,435.82	
06 03 05 03	INSURANCE	01100	17089	.00	1,879.44	86,514.89	
06 03 05 04	MEDICAID	01100	17089	.00	20,469.26	192,576.34	
06 03 05 05	MEDICARE	01100	17089	.00	21,785.92	22,426.34	
06 03 05 06	AGED & RETIRED	01100	17089	.00	662.55	4,177.10	
06 03 05 07	PRIVATE CATHOLIC BILLING	01100	17089	.00	7,324.54	24,975.77	
06 03 05 08	ALCOHOLIC INSURANCE BILLING	01100	17089	.00	39,122.31	359,372.31	
06 03 05 09	LEVEL-3 TOTAL			.00			
06 03 06 01	VETERANS HOME	01100	17089	.00	17,548.99	78,141.07	
06 03 06 02	PRIVATE BILLING	01100	17089	.00	17,548.88	78,141.07	
06 03 06 03	LEVEL-3 TOTAL			.00			
06 03 07 01	WASH SAVINGS STATE HOSPITAL	01100	17089	.00	38,725.78	188,121.46	
06 03 07 02	PRIVATE BILLING	01100	17089	.00	3,242.89	6,597.95	
06 03 07 03	INSURANCE	01100	17089	.00	25,486.29	175,871.72	
06 03 07 04	MEDICAID	01100	17089	.00	14,975.27	41,490.73	
06 03 07 05	MEDICARE	01100	17089	.00	82,430.20	412,081.86	
	LEVEL-2 TOTAL			.00			
	LEVEL-1 TOTAL			.00			
08 01 01 01	RENTALS, LEASES AND PURCHASES	07257	77080	.00		1,643,736.54	\$1
08 01 01 02	OFFICES	07257	77080	.00		155.68	



IB.DUILLIER LITTLE ELP
SALMONDALE HOSPITAL

BOULDER, MONTANA 59632

THOMAS L. JUDGE
GOVERNOR

WILLIAM F. CONYARD
SUPERINTENDENT

ROBERT H. MATTS
DEPT. OF INSTITUTIONS

TO: Dick Heard

FROM: *Bill Conyad*

DATE: November 29, 1976

At your earliest convenience I would appreciate your meeting with Tom Dolan informing him that Payroll will be placed under the responsibility of Ray Hoffman. This change is in conformance with the auditor's report and recommendations relating to the Personnel Director's approving payrolls.

I will meet with Tim Plaska as soon as possible informing him that the timekeepers will be transferred from the Habilitation Department to Payroll.

Thank you for your help in this matter.

file
bs



DEPARTMENT OF ADMINISTRATION

Montana 59701

March 13, 1971

Mr. Thomas J. Mulholland
Fiscal Management Analyst
Department of Institutions
Helena, Montana 59601

Dear Mr. Mulholland:

Re: Boulder River School and Hospital
Patient Trust Accounts

I hereby approve Boulder River School and Hospital's request to transfer its patient trust cash from the Treasury System into the First Security Bank of Helena as outlined; however, I do encourage you and the Board to consider further the feasibility of utilizing a general patient savings account in the management of patient funds. The plan as approved will require the maintenance of an excessive checking account balance.

From a systems standpoint it is not necessary to deposit general surplus cash in a general savings account. From a management standpoint, however, the non-investment of idle cash is not a sound practice.

I appreciate the Board's concern regarding the utilization of interest earned on patient deposits to benefit non-contributing patients, and realize a "general patient benefit fund" can create managerial problems. However, if the patient funds were on deposit in the Treasury, the amount of idle patient cash could be invested. In which case, interest earned would go to the General Fund and finance general State operations.

This approval can be terminated after giving thirty days notice at any time it is deemed best for the State or patients.

Yours very truly,

Doyle B. Saxby,
State Controller

cc: Ron Near

DBS: pe

PERSONAL POSSESSIONS INVENTORY

The Personal Possessions Inventory replaces the Clothing and Valuables Record. The form is designed to provide cottage staff with a tool for monthly inventory of resident's personal belongings.

COMPLETING THE FORM

1. Name: Enter the resident's full name
2. Case #: Enter resident's case number as it appears on the Cardex.
3. Year: Enter current calendar year.
4. Cottage: Enter cottage number.
5. Date received: Enter date article was received by the resident. An initial inventory must be taken of current possessions and entered on the form.
6. Recorded by: Name of employee making initial entry of the item on the form.
7. List and describe Enter sufficient information to identify the article at a later date--include type of item, brand name, size, serial number, whether new or used, approximate value, color, style etc. as appropriate. More than one line may be used to describe the item if needed for an accurate description.
8. Monthly inventory boxes: Inventory should be completed on or about the 15th of each month by the group leader. Space is provided on the form for the group leader's signature. If the item is still in possession enter a check in the appropriate box. If not, write "no" on the box and explain the circumstances on the back of the form. If an item is known to be missing or destroyed between monthly inventories that information should be recorded as soon as it is known.
9. See examples on Pages 27A and 27B.
10. Items should be marked with resident's name when received.
11. Additional sheets may be used as needed.

Case Number 3014

Year 1926

Elton Adams
Elton Adams
Elton Adams
Elton Adams
Mark Jones
Mark Jones
John Doe

Personal Possessions other than clothing are to be listed on this form. Items whose life expectancy would normally be less than one year and whose value is less than \$5.00 do not need to be entered.

Check appropriate box if item is on hand at monthly inventory. Enter 'No' and explain circumstances on reverse if item is no longer on hand. Description must provide sufficient information to allow for future identification.

3/13/76 TV fell from shelf and was damaged sent on this date to Helius T.V. service for repairs / M.G.

3/29/76 T.V. repaired & returned / M.G.

4/15/76 Fire truck has lost its wheel; fire truck disposed of on this day / M.G.

4/15/76 Pocket watch could not be located on this date at time of inventory; no one knows what happened to it / M.G.
5/29/76 Bill threw his radio at the wall today; it was damaged beyond repair and thrown away / S.A.

6/16/76 "Bock's greatest hits" is missing; theft is suspected.
Report made to Safety & Security Office / S.O.



BOULDER MENTAL SCHOOL AND HOSPITAL

BOULDER, MONTANA 59632

THOMAS L. JUDGE
GOVERNOR

WILLIAM F. CONYARD
SUPERINTENDENT

ROBERT H. MATTSON
DEPT. OF INSTITUTIONS

TO: Tim Plaska
Bill Conyard
FROM: Bill Conyard

DATE: November 29, 1976

In a recent auditor's recommendations they advised that we provide closer controls on resident's personal property. I expect this should be done by insuring that each Cottage Supervisor has a list of all personal items for each resident in a binder within the cottage and as the resident is transferred to another cottage that the slip relating to that particular item as well as the item be transferred with him. Please inform Cottage Supervisors of this continued need as it was picked up by the auditors. Thanks for your assistance.

bs



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

THOMAS L. JUDGE, Governor

December 27, 1976

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

In reply to your letter of December 14, 1976, I submit the following response to the recommendation contained in the audit report of the Boulder River School and Hospital:

Recommendation

We recommend the department of administration submit all repair contracts exceeding \$10,000 to the board of examiners for approval.

Response

We concur with the recommendation. This is the procedure followed by the department of administration when preliminary cost estimates indicate a project will cost more than \$10,000. There are rare occasions, as in the project discussed in the report, when the preliminary cost estimate for a maintenance project is under \$10,000. However, during the execution of the project, if it is determined that additional material and work is needed to properly preserve the facility, to attempt to change the contract procedure in use at that time would, in most cases, result in increased cost to the State.

Sincerely,

A handwritten signature in cursive ink that reads "Jack C. Crosser".
Jack C. Crosser
Director

JCC:bc



